

Message Text

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14-11

ORIGIN EB-07

INFO OCT-01 NEA-10 ISO-00 XMB-02 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00

FRB-03 IGA-01 L-03 PA-01 PRS-01 USIA-06 H-02 (ISO) R

DRAFTED BY EB/IFD/OMA:BGCROWE:DLS

APPROVED BY EB/IFD/OMA:CCCUNDIFF

NESA/SA:RBECKMAN

NEA/PAB:SEISENBRAUN

EXIMBANK:CHAMMOND (INFO)

TREASURY:SCANNER (SUBS)

----- 025001

R 232307Z JUN 75

FM SECSTATE WASHDC

TO AMEMBASSY DACCA

INFO AMEMBASSY ISLAMABAD

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E.O. 11652: N/A

TAGS: EFIN, EXIM, BG, PK

SUBJECT: EXPORT-IMPORT BANK AND PAKISTAN/BANGLADESH DEBT
DIVISION

REF: STATE 098714

1. DEPARTMENT VERY MUCH APPRECIATES ASSISTANCE EMBASSY IS
PROVIDING IN SUPPORT OF EXIMBANK EFFORTS TO RESOLVE QUES-
TION OF RESPONSIBILITY OF PRE-WAR EXIMBANK LOANS
"VISIBLY LOCATED" IN BANGLADESH.

2. WE ACCORD HIGH PRIORITY TO RESOLUTION OF THIS ISSUE AS
WE WISH TO FINALIZE BILATERAL DEBT AGREEMENTS WITH BOTH
PAKISTAN AND BANGLADESH AS SOON AS POSSIBLE. DEPARTMENT
THEREFORE DESIRES:

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A) EMBASSY ESTIMATE OF HOW SOON WE CAN EXPECT BANGLADESH

AGREEMENT TO ASSUME SPECIFIC AMOUNT OF LIABILITY ON
EXIMBANK LOANS.

B) ANY EMBASSY SUGGESTIONS OF HOW SETTLEMENT CAN
BE EXPEDITED, EITHER BY ACTION OF USG AGENCIES WASHINGTON
OR BY EMBASSY DACCA.

3. REF: PARA 4 OF DACCA 2329 REGARDING CALCULATION OF
GRANT ELEMENT OF LOANS TO BE ASSUMED BY BANGLADESH:

A) THE GRANT ELEMENT OF A LOAN IS ITS FACE VALUE MINUS
THE "PRESENT VALUE" OF THE SERVICE PAYMENTS. THE FUNDA-
MENTAL IDEA BEHIND DISCOUNTING THE SERVICE PAYMENTS IS
THAT A SUM OF MONEY NOW IS PREFERABLE TO THE SAME SUM
OF MONEY AVAILABLE IN THE FUTURE. AN INTEREST RATE
OF 10 PERCENT IS THE CURRENTLY ACCEPTED "RATE OF DISCOUNT"
USED IN WORLD BANK AND OECD GRANT ELEMENT CALCULATIONS.

B) THE TOTAL PRINCIPAL AMOUNT DUE ON AID LOANS TO BE
ASSUMED BY BANGLADESH IS 85.1 MILLION DOLS. REPAYMENTS
WILL BE OVER A 40 YEAR PERIOD, INCLUDING A 15 YEAR GRACE
PERIOD. PRINCIPAL AMOUNTS SHALL BE MADE IN 51 SEMI-
ANNUAL INSTALLMENTS, WITH THE FIRST INSTALLMENT OF PRINCI-
PAL DUE ON JULY 1, 1989. INTEREST WILL ACCRUE AT THE RATE
OF 1.6 PERCENT PER ANNUM COMMENCING JULY 1, 1974, WITH
INTEREST PAYMENTS DUE THROUGH JANUARY 1, 1989,

CAPITALIZED AND AMORTIZED OVER THE REMAINING 25 YEAR
PAYMENT PERIOD. THE WORLD BANK ADVISED US LAST YEAR THAT
THESE TERMS PROVIDE 86.5 PERCENT GRANT ELEMENT.

C) EXIMBANK LOANS ASSUMED BY BANGLADESH WILL MAINTAIN
THE REPAYMENT TERMS EXISTING IN CURRENT LOAN CONTRACTS.
NONE OF THE LOANS BEING NEGOTIATED HAVE AN INTEREST RATE
HIGHER THAN 6 PERCENT. SINCE THIS IS BELOW THE 10
PERCENT DISCOUNT RATE USED IN CALCULATIONS, EVEN THE
EXIMBANK LOANS WILL HAVE SOME -- ADMITTEDLY SMALL -- GRANT
ELEMENT. THE GRANT ELEMENT OF THE EXIMBANK LOANS SHOULD
BE ABOUT 10 PERCENT.

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D) THE GRANT ELEMENT OF THE ENTIRE (AID PLUS

EXIMBANK) PACKAGE IS DETERMINED ON A "WEIGHTED AVERAGE"
BASIS. IF WE ESTIMATE THE VALUE OF EXIMBANK LOANS
ASSUMED BY BANGLADESH AT 2.6 MILLION DOLS, THEY WOULD
REQUIRE A GRANT ELEMENT OF LESS THAN 3 PERCENT TO EFFECT
A PACKAGE MEETING THE 84 PERCENT GRANT ELEMENT TARGET:

----- AMOUNT ASSUMED -- GRANT ELEMENT

AID ----- 85.1 DOLS X 86.5 PERCENT 7361.2

EXIM ----- 2.6 DOLS X 3.0 PERCENT 7.8

AID PLUS EXIM 87.7 DOLS X 84.03PERCENT 7369.0

IF WE ESTIMATE THE GRANT ELEMENT OF THE EXIMBANK LOANS
AT 10 PERCENT, THE GRANT ELEMENT OF THE PACKAGE IS 84.23
PERCENT.

----- AMOUNT --- GRANT ELEMENT

AID ----- 85.1 DOLS X 86.5 PERCENT 7361.2

EXIM ----- 2.6 DOLS X 10.0 PERCENT 26.0

AID PLUS EXIM 87.7 DOLS 84.23 PERCENT 7387.2

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, BANK LOANS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE147473
Document Source: CORE
Document Unique ID: 00
Drafter: BGCROWE:DLS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750218-0907
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750623/aaaaavgb.tel
Line Count: 129
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 098714
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 04 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 AUG 2003 by ShawDG>; APPROVED <21 NOV 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT-IMPORT BANK AND PAKISTAN/BANGLADESH DEBT DIVISION
TAGS: EFIN, BG, PK, XMB
To: DACCA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006